
FRBSF WEEKLY LETTER

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What's Happening to Southern California?

California's economy has received considerable attention in recent months, as problems have mounted and employment conditions have continued to deteriorate. Most of California's troubles have been concentrated in the southern part of the state. Six southern California counties (Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura) have lost 520,000 jobs since employment peaked in March of 1990, a decline of 7 percent. That means that southern California, which provides 57 percent of the state's jobs, accounts for fully 87 percent of the state's job losses during this downturn.

This *Weekly Letter* compares the economic performances of the various subregions within the southern California area, using two alternative measures of their recession experiences. Then it discusses how the national recession, defense cutbacks, real estate problems, and business climate problems contributed to the whole region's economic deterioration.

Different regions, different fates?

Focusing either on the absolute number or percentage of jobs lost suggests that Los Angeles County has borne the brunt of this down cycle. L.A. County has lost 369,000 jobs, or 8.6 percent of its employment. Orange County has lost 87,000 of its jobs, a decline of 7.1 percent. Job losses in other parts of southern California have been more modest, ranging from 2.1 percent in Riverside/San Bernardino to 4.2 percent in San Diego.

An alternative measure of the recession's impact on different regions compares the rate of growth during the expansion with the rate of decline during the subsequent contraction. By this measure, a region would be considered hard hit if its

employment growth rate changed dramatically, even if employment did not decline particularly sharply during the contraction.

This measure gives a different picture of southern California, since L.A. County grew considerably more slowly than the rest of southern California did during the expansion of the 1980s. Between the beginning of 1983 and the beginning of 1990, employment in L.A. County grew at an annual rate of 2.9 percent—actually a little slower than the 3.0 percent growth seen nationally during the same period. In contrast, Orange, Ventura, and San Diego Counties all saw employment grow at annual rates of 5 to 6 percent. The Riverside/San Bernardino area grew even faster, at an annual rate of 7.5 percent.

Thus, the change in employment growth between the expansion of the 1980s and the contraction of the early 1990s—the “differential”—was actually smaller in L.A. County (7.0 percentage points) than in the rest of southern California (8.3 percentage points). With a differential of 9.1 percentage points, Riverside/San Bernardino becomes the southern California region most affected by the recession. By way of comparison, the differential for the U.S. was 3.9 percentage points, while the statewide differential for California was 6.2 percentage points.

These figures counter the notion that the impact of the recession has been concentrated in Los Angeles County. Rather, L.A.'s greater share of the job losses appears to result from its longer-term sluggishness in job growth relative to its neighboring counties. What these figures do suggest is that the current downturn is hitting the entire southern California area extremely hard.

THE WESTERN ECONOMY

The Western Economy is a quarterly review of economic conditions in the Twelfth Federal Reserve District. It is published in the *Weekly Letter* on the third Friday of February, May, August and November.

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An unusual recession

A look at recent history suggests that it should not be surprising that southern California is feeling the effects of the national recession. In the 1975–1980 business cycle (expansion and recession), southern California's differential (5.9 percentage points) was slightly higher than the nation's (5.8 percentage points); in the 1980–82 cycle, southern California's differential (5.4 percentage points) was a full percentage point worse than the nation's (4.3 percentage points).

However, the deterioration in the area's economy has been much greater during the current cycle than it was during the early 1980s, even though the U.S. recession has been milder. If this recession had the same impact on southern California's employment as earlier recessions did, job losses would have been less than 65,000—a much smaller decline than has actually occurred.

The roles of defense and real estate

The defense and real estate sectors have received much of the blame for the severity of southern California's downturn. These two sectors have experienced particularly hard times during the past couple of years. Since the region's employment peaked in March of 1990, the six southern California counties have lost 23 percent of their aerospace jobs, a decline of 49,000. And southern California has lost 116,000 of its construction jobs during that period, a decline of 30 percent.

Moreover, these direct job losses led to additional losses in a variety of sectors, as laid-off workers cut back on their purchases. These secondary effects would be smaller for construction activity than for aerospace, since some of the decline in construction is itself a secondary effect, that is, due to weakness in other sectors. However, declining property values, especially in commercial real estate, could provide additional constraints on economic activity in the region.

Even so, the declines in aerospace and construction employment, together with typical estimates of their associated secondary effects, would not be expected to result in a loss of as many as 520,000 jobs. In fact, employment in southern California has deteriorated dramatically across a broad range of industries. The number of job

losses has been greater in both trade (151,000) and nonaerospace manufacturing (123,000) than in either construction or aerospace.

Business climate

Deterioration in the area's business climate may have contributed to the breadth and depth of the downturn. Complaints about traffic and high costs have been around for at least ten or twenty years, but in the last few years air quality regulations have become more stringent and workers' compensation coverage more expensive. These "business climate" factors seem to have become more binding in recent years, and in the generally weak economic climate they may loom larger in firms' decisions than they would during more vigorous economic times.

It is hard to get a handle on just how large the effects from these factors are. A few industries affected by more stringent air quality regulations have seen significant declines in area employment in recent years. For example, southern California's furniture and fixtures industry, which traditionally has relied on solvents whose use is now restricted, has lost 37 percent, or 15,000, of its jobs since its employment peaked in 1987. Nevertheless, there is no evidence of a mass migration of business out of the southern California area.

Conclusions

Southern California currently is experiencing economic problems on a scale that the region has not seen in decades. While most of the region's job losses have been in Los Angeles County, the rest of southern California has seen its performance change just as dramatically. Possible explanations for the area's recent troubles include the national recession, defense cutbacks, problems in the real estate and construction industries, and changes in the area's business climate. None of these explanations alone is sufficient to explain the severity of southern California's problems, but they have all hit at roughly the same time. This unusual convergence of negative forces does go a long way toward accounting for the magnitude of southern California's economic woes.

Carolyn Sherwood-Call
Economist

DISTRICT INDICATORS
(Seasonally Adjusted)

	92Q2	92Q1	91Q4	91Q3	91Q2	91Q1	90Q4	90Q3	% Change From:	
									92Q1	91Q2
AGRICULTURE										
U.S. CROP PRICES, 1985=100	108.0	109.5	110.9	114.7	116.1	113.3	114.6	115.8	-1.42	-6.98
DISTRICT CROP PRICES, 1985=100	101.4	114.0	107.9	120.4	129.6	107.3	112.5	112.9	-11.06	-21.74
FARM CASH RECEIPTS, MILLION \$	2362.3	2445.9	2694.2	2529.5	2698.3	2529.0	2629.7	2630.7	-3.42	-12.45
CATTLE ON FEED, 1985=100	87.1	86.5	80.4	84.4	92.1	92.4	86.9	88.7	0.69	-5.39
CATTLE PRICES, CALIFORNIA, \$/CWT.	57.4	60.9	62.1	62.6	66.4	64.5	63.9	65.9	-5.69	-13.46
FORESTRY										
LUMBER PRODUCTION, MILLIONS BOARD FEET	1196.5	1417.9	1351.8	1428.7	1467.7	1359.0	1360.5	1528.7	-15.61	-18.48
NORTHWEST LUMBER INVENTORY, MIL. BD. FT.	2269.0	2173.9	2297.1	2422.3	2315.0	2377.1	2335.6	2472.8	4.37	-1.99
U.S. LUMBER PRICES, 1986=100	154.4	157.1	137.2	131.2	138.3	113.8	120.6	129.6	-1.69	11.64
ENERGY										
SPOT PRICE OF OIL, \$/BARREL	21.1	18.9	21.8	21.6	20.8	22.1	32.1	26.2	11.76	1.61
U.S. RIG COUNT	696.0	650.9	789.1	802.6	924.3	951.1	1096.3	1003.5	6.92	-24.71
DISTRICT RIG COUNT	68.9	55.6	60.9	73.3	83.8	73.2	74.5	75.1	23.87	-17.74
FUEL MINING EMPLOYMENT, 1985=100	70.3	70.1	69.9	72.7	73.6	74.8	73.9	74.1	0.36	-4.44
U.S. SEISMIC CREW COUNT	83.0	80.2	89.7	98.4	110.2	117.9	120.3	122.7	3.49	-24.67
MINING										
MINERAL PRICES, 1986=100	107.7	105.3	103.2	105.6	109.2	108.2	112.2	129.0	2.22	-1.40
METAL MINING EMPLOYMENT, 1985=100	176.8	180.9	180.7	184.1	185.9	193.1	195.9	197.9	-2.22	-4.86
CONSTRUCTION										
NONRESIDENTIAL AWARDS, 1985=100	104.1	115.0	103.7	93.4	103.1	106.3	101.1	111.8	-9.48	0.96
RESIDENTIAL PERMITS	19182	19780	19496	18524	19833	17667	18524	22940	-3.03	-3.29
WESTERN HOUSING STARTS, THOUSANDS	26.8	21.9	19.5	24.1	25.5	15.6	18.6	29.1	22.53	5.37
CONSTRUCTION EMPLOYMENT, THOUSANDS	908.2	906.9	912.1	929.3	938.8	957.7	1002.0	1034.7	0.14	-3.26
MANUFACTURING										
WAGES, CALIFORNIA, \$/HOUR	12.2	12.1	12.0	11.9	11.8	11.8	11.7	11.5	0.85	3.50
EMPLOYMENT, THOUSANDS	2909.6	2948.0	2956.4	2982.4	3005.8	3050.3	3102.4	3135.2	-1.30	-3.20
DURABLES, 1985=100	91.7	93.0	93.9	95.3	96.3	97.9	100.0	101.7	-1.44	-4.82
CONSTRUCTION DURABLES, 1985=100	93.5	94.3	93.7	95.4	95.6	97.7	104.0	108.5	-0.91	-2.27
AEROSPACE, 1985=100	99.1	103.1	105.6	107.0	109.4	111.9	114.0	116.0	-3.95	-9.45
ELECTRONICS, 1985=100	87.3	87.8	88.5	90.6	92.2	92.8	92.4	93.1	-0.58	-5.30
SEMICONDUCTOR ORDERS, MIL. \$, NOT S.A.	1499.3	1441.8	1393.1	1268.5	1289.4	1217.6	1208.0	1240.8	3.98	16.28
WHLS/RETAIL TRADE EMPLOYMENT, THOUSANDS	4676.5	4701.4	4693.0	4713.4	4725.7	4725.7	4791.9	4812.4	-0.53	-1.04
RETAIL SALES, PACIFIC DISTRICT, MIL. \$	N/A	25893	25078	25445	25321	24655	25101	25123	N/A	N/A
SERVICES EMPLOYMENT, THOUSANDS	5504.4	5497.4	5488.5	5471.9	5445.0	5404.5	5441.2	5418.1	0.13	1.09
HEALTH CARE, 1985=100	132.5	131.8	131.2	129.8	128.9	127.6	127.6	125.2	0.53	2.81
BUSINESS SERVICES, 1985=100	113.7	113.4	112.0	112.7	113.6	113.1	112.6	113.7	0.22	0.10
HOTEL, 1985=100	132.3	133.3	134.5	131.7	132.1	132.1	135.4	134.8	-0.74	0.13
RECREATION, 1985=100	139.4	139.5	140.7	139.1	140.1	138.2	139.6	136.8	-0.06	-0.51
FINANCE, INSUR. AND REAL ESTATE EMPL.	1239.1	1244.3	1242.3	1245.0	1247.2	1247.9	1258.8	1259.3	-0.41	-0.65
GOVERNMENT EMPLOYMENT, THOUSANDS										
FEDERAL GOVERNMENT	601.2	609.7	611.5	614.1	610.7	614.5	618.8	632.6	-1.40	-1.55
STATE AND LOCAL	2905.2	2901.6	2883.8	2888.9	2863.2	2851.0	2842.2	2832.3	0.13	1.47

Data are weighted aggregates of available 12th District data constructed by FRBSF staff from public and industry sources.

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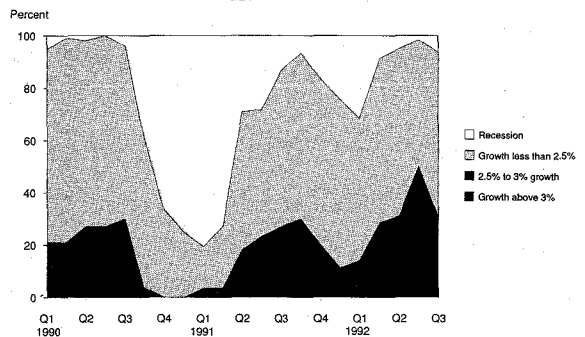
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PERSONAL INCOME ANNUALIZED PERCENT GROWTH RATES

	92Q1	91Q4	91Q3	91Q2	91Q1	ANNUAL GROWTH		
						1992*	1991	1990
ALASKA	9.7	6.7	4.9	-1.8	6.7	9.7	4.1	6.5
ARIZONA	5.3	4.1	-0.4	5.1	5.5	5.3	3.6	6.0
CALIFORNIA	5.1	-0.4	2.9	5.4	-2.8	5.1	1.2	7.4
HAWAII	6.9	2.9	5.1	3.3	4.8	6.9	4.0	11.0
IDAHO	3.4	13.6	3.4	9.1	-8.3	3.4	4.1	8.0
NEVADA	8.4	1.2	5.0	4.6	3.5	8.4	3.6	9.9
OREGON	9.1	4.6	5.5	4.2	1.7	9.1	4.0	7.0
UTAH	7.2	5.2	4.7	6.8	4.9	7.2	5.4	8.6
WASHINGTON	4.0	7.2	5.4	4.6	3.6	4.0	5.2	8.5
12TH DISTRICT	5.4	1.5	3.2	5.2	-0.8	5.4	2.2	7.6
U.S.	5.4	3.8	2.9	4.3	0.1	5.4	2.8	6.1

* Year-to-date

Twelfth District Business Sentiment* GDP



* Expectations for GDP growth during the next four quarters based on a survey of approximately 75 business leaders in the 12th Federal Reserve District.

NON-AGRICULTURAL EMPLOYMENT ANNUALIZED PERCENT GROWTH RATES

	92Q2	92Q1	91Q4	91Q3	91Q2	ANNUAL GROWTH		
						1992*	1991	1990
ALASKA	-7.4	3.5	7.3	0.6	-1.8	-2.0	2.1	5.2
ARIZONA	-1.4	0.6	-0.2	2.8	-0.1	-0.4	0.6	1.6
CALIFORNIA	-1.7	-0.5	-3.4	-1.1	-0.8	-1.1	-2.9	0.4
HAWAII	-1.3	1.2	1.4	2.6	-0.6	-0.1	1.0	3.8
IDAHO	-3.3	5.9	5.9	3.1	2.2	1.3	3.5	4.9
NEVADA	-1.7	4.2	4.2	2.2	0.7	1.3	1.5	5.3
OREGON	-0.1	3.6	1.5	1.2	-0.5	1.8	-0.1	2.5
UTAH	1.7	3.0	2.0	3.4	0.9	2.4	2.3	4.4
WASHINGTON	-2.3	1.8	2.9	1.6	1.1	-0.2	1.0	3.3
12TH DISTRICT	-1.6	0.6	-1.3	0.1	-0.4	-0.5	-1.4	1.4
U.S.	1.1	-0.2	-0.2	0.1	-1.3	0.4	-1.0	0.3

* Year-to-date

UNEMPLOYMENT RATES AVERAGE QUARTERLY DATA

	92Q2	92Q1	91Q4	91Q3	91Q2	ANNUAL AVG.		
						1992*	1991	1990
ALASKA	9.1	9.1	9.8	8.8	8.0	9.1	8.6	7.0
ARIZONA	7.3	8.7	7.3	5.6	4.9	8.0	5.7	5.3
CALIFORNIA	8.7	8.4	7.7	7.6	7.7	8.6	7.6	5.6
HAWAII	4.0	3.5	3.0	2.7	2.5	3.8	2.7	2.8
IDAHO	6.2	6.3	6.2	5.7	6.3	6.3	6.1	5.9
NEVADA	6.1	6.6	5.7	5.5	5.6	6.4	5.5	5.0
OREGON	6.7	8.1	6.5	5.9	5.8	7.4	6.0	5.5
UTAH	4.8	4.6	5.3	5.1	4.7	4.7	4.9	4.3
WASHINGTON	6.8	7.3	6.8	6.3	6.3	7.1	6.3	4.9
12TH DISTRICT	7.9	8.0	7.2	6.9	6.9	8.0	6.9	5.4
U.S.	7.5	7.2	7.0	6.8	6.8	7.4	6.7	5.5

* Year-to-date